

May 18, 2004

SMALL BUSINESS RETIREMENT

PLAN PROPOSAL

Edward Jones strongly supported the provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") that will stimulate retirement plan coverage of employees of small businesses. The low rate of coverage of such employees is a serious problem that threatens the retirement security of millions of Americans. We believe that enactment of EGTRRA was a major step toward solving this problem.

EGTRRA, however, did not contain a critical element of small business retirement plan reform: simplification of reporting requirements. It is our understanding that reporting simplification was not included in EGTRRA for procedural reasons.

Reporting simplification proposals.

a. **One-participant retirement plans.** Retirement plans are generally required to file a Form 5500 with the Department of Labor each year. This reporting obligation can be quite burdensome for a small business.

"One-participant retirement plans"¹ are generally exempt from the Form 5500 filing requirement if they have not held more than \$100,000 in total plan assets at the end of any plan year since 1994. The \$100,000 figure has not been adjusted since 1989. A one-participant retirement plan that does not qualify for this exemption is required to file a Form 5500-EZ, which is a simplified version of the Form 5500.

Generally, under the proposal, the \$100,000 figure would be increased to \$250,000. This proposal would update the old figure and would expand the group of small businesses that can focus their resources on benefiting employees, rather than on reporting.

b. **Small plans.** Under the proposal, the Treasury Department and the Labor Department would be directed to simplify the Form 5500 for any plan that covers fewer than 25 employees, as long as the plan satisfies certain requirements (such as coverage of a nondiscriminatory group of employees). This proposal would

¹ A "one-participant retirement plan" is generally defined as a plan that covers only certain small business owners (or such owners and their spouses) and meets certain other requirements. If a small business has nonhighly compensated employees who are discriminatorily excluded from the plan, the plan would not be a "one-participant retirement plan."

result in reporting simplification for a tremendous number of small businesses. Moreover, by providing the Treasury Department and the Labor Department with discretion as how to simplify reporting, the proposal ensures that simplification can be achieved without undermining any of the purposes served by the reporting rules.

Legislative Status

Both of the above proposals were contained in the Taxpayer Refund and Relief Act of 1999, as passed by Congress but vetoed by the President.² The House-passed version of EGTRRA also included both proposals; the Senate-passed version of EGTRRA contained the proposal regarding one-participant retirement plans. As noted above, it is our understanding that the lack of a significant revenue effect caused reporting simplification not to be included in the enacted version of EGTRRA for procedural reasons related to the "Byrd rule".

In 2002, the House passed these reporting simplification proposals in H.R. 3762, the Pension Security Act of 2002. (See section 202 of the bill.) The proposals were subsequently included in (1) section 1202 of the Portman/Cardin bill (H.R. 1776) introduced in April of 2003, (2) section 202 of the Pension Security Act of 2003 (H.R. 1000) as passed by the House in May of 2003, and (3) section 434 of the National Employee Savings and Trust Equity Guarantee Act of 2004 (S. 2424), as reported by the Senate Finance Committee in May of 2004. In a May 2004 revenue estimate prepared by the Joint Committee on Taxation, these proposals were estimated to have no revenue effect.

We urge enactment of both reporting simplification proposals. In order to encourage small businesses to adopt and maintain retirement plans, administrative burdens need to be reduced. Simplification of the Form 5500 reporting requirements is a critical part of reducing those burdens.

² The small plan part of the proposal was included in the 1999 legislation in a different form, but would have achieved the same purpose.